

Message Text

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ACTION EUR-12

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FM AMEMBASSY ROME
TO SECSTATE WASHDC 2844
DEPT OF TREASURY WASHDC

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E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: THE FREEZE ON WAGE ESCALATOR IS LIFTED

1. AS OF MAY 1, THE "FREEZE" ON COST-OF-LIVING INCREASES FOR HIGH INCOME GROUPS IMPOSED IN NOVEMBER 1976 WAS LIFTED. CONSEQUENTLY, THOSE EARNING OVER 6 MILLION LIRE A YEAR WILL HENCEFORTH RECEIVE THE FULL ADJUSTMENT, WHEREAS PREVIOUSLY THOSE MAKING BETWEEN 6 AND 8 MILLION LIRE A YEAR HAD HALF OF THEIR ADJUSTMENT FROZEN AND THOSE EARNING OVER 8 MILLION HAD ALL OF THE INCREASE FROZEN. THE FROZEN ADJUSTMENTS WERE PAID OUT IN NON-NEGOTIABLE FIVE-YEAR TREASURY BONDS CARRYING A 13-14 PERCENT RATE OF INTEREST.

2. SINCE THE NOVEMBER 1976 FREEZE WENT INTO EFFECT, 34 ESCALATOR POINTS WERE ACCUMULATED. STARTING IN MAY, THEREFORE, WAGE EARNERS WILL BE RECEIVING A HEFTY CASH INCREASE, AS THE ACCUMULATED POINTS WILL BE INCLUDED IN THE BASE FOR CALCULATING SALARY (EVERY ESCALATOR POINT IS WORTH 2,389 LIRE). GROSS SALARIES FOR THOSE MAKING OVER 8 MILLION LIRE WILL GO UP BY ABOUT 95,000 LIRE A MONTH (75,000 NET OF TAXES AND SOCIAL INSURANCE
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CONTRIBUTIONS) WHILE FOR THOSE EARNING BETWEEN 6 AND 8 MILLION LIRE, THE INCREASE WILL BE ABOUT 45,000 LIRE PER MONTH (35,000 LIRE NET), (THESE AMOUNTS INCLUDE OTHER BENEFITS WHICH HAD BEEN FORZEN AS A RESULT OF THE FREEZE ON THE ESCALATOR.)

3. BASED ON A 1976 BANK OF ITALY SURVEY ON INCOME

DISTRIBUTION, WE ESTIMATE THAT THE INCREASE IN DISPOSABLE INCOME FOR ALL DEPENDENT WORKERS WITH GROSS SALARIES ABOVE 6 MILLION YEARLY SHOULD AMOUNT TO APPROXIMATELY 106 BILLION LIRE PER MONTH, I.E., TO 848 BILLION FOR THE LAST EIGHT MONTHS OF 1978. ON AN ANNUAL BASIS, THIS FIGURE REPRESENTS ROUGHLY 3 PERCENT OF DISPOSABLE INCOME OF ALL DEPENDENT WORKERS IN 1977. WE ALSO ANTICIPATE THAT, SINCE THE RECIPIENTS OF THESE INCREASES ARE HIGHER-INCOME GROUPS, THE INFLATIONARY IMPACT OF THE MOVE SHOULD BE CONTAINED. THIS CONCLUSION IS BASED ON THE ASSUMPTION THAT UPPER INCOME GROUPS HAVE A HIGHER PROPENSITY TO SAVE, SO THAT A CONSIDERABLE PORTION OF THE INCREASE IN DISPOSABLE INCOME WILL GO INTO VOLUNTARY SAVINGS (AS COMPARED TO THE "FORCED SAVINGS" IMPOSED BY THE FREEZE).

4. ACCORDING TO ONE REPORT, IT IS ESTIMATED THAT THE FREEZING OF THE ESCALATOR, WHILE IT MAY HAVE CONTRIBUTED TO SLOWING DOWN INFLATION IN THE SHORT RUN, HAS PUT AN ADDITIONAL BURDEN ON THE TREASURY IN THE MEDIUM TERM. THIS IS BECAUSE THE EFFECTIVE YIELD ON TREASURY BILLS ISSUED IN CONNECTION WITH THE FREEZE IS ESTIMATED AT AROUND 22 PERCENT, WHILE THE NOMINAL RATE WAS 13-14 PERCENT; THIS IS BECAUSE THE BILLS WERE ISSUED BELOW PAR AND ARE FULLY TAX EXEMPT. GARDNER
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Message Attributes

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